

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

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E.O. 11652: N/A

TAGS: EMIN, ENRG, AS

SUBJECT: AUSTRALIAN CRUDE OIL PRICING POLICY

REF: 76 CANBERRA A-113

BEGIN UNCLASSIFIED

1. GOA REVEALED CRUDE OIL PRICING POLICY IN AUGUST BUDGET MESSAGE DELIVERED BY TREASURER PHIL LYNCH. MINISTER FOR NATIONAL RESOURCES, DOUG ANTHONY, FOLLOWED BUDGET PRESENTATION WITH AN ELABORATION OF NEW PRICING POLICY.

2. GOA HAS DECIDED TO IMPLEMENT POLICY TTAT WILL RAISE THE PRICE OF INDIGENOUS CRUDE OIL FROM EXISTING FIELDS TOWARD WORLD IMPORT PARITY PRICES. IMPORT PARITY WILL BE RECEIVED FOR EITHER FIRST SIX MILLION BARRELS OF OIL PRODUCED FROM EACH FIELD PER YEAR (CALLED THE BASIC ALLOWANCE), OR A PROPORTION, RISING OVER TIME, OF LIMITED OFFICIAL USE

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ANNUAL PRODUCTION, WHICHEVER IS GREATEST. BEGINNING AUGUST 17, 1977, PROPORTION OF OIL PER FIELD TO BE SOLD AT IMPORT PARITY PRICES WILL BE 10 PERCENT OF ANNUAL PRODUCTION. IN THE THREE SUBSEQUENT FINANCIAL YEARS, THE CORRESPONDING PROPORTIONS WILL BE 20, 35 AND 50 PERCENT.

3. IMPORT PARITY PRICES WILL BE CALCULATED ON BASIS OF PRICE OF ARABIAN LIGHT OIL AT THE NEAREST REFINERY PORT, ADJUSTED TO ALLOW FOR AN APPROPRIATE QUALITY DIFFERENTIAL. THIS DIFFERENTIAL WILL TAKE ACCOUNT OF SUITABILITY OF INDIGENOUS CRUDE OIL FOR LOCAL MARKET. FOR PERIOD UNTIL DECEMBER 31, 1977, IMPORT PARITY PRICE WILL BE SET AT AUSTRALIAN DOLS 13 PER BARREL. IMPORT PARITY PRICE WILL BE REVIEWED EVERY SIX MONTHS BY GOA. OIL FROM FIELDS DISCOVERED AFTER SEPTEMBER 14, 1975, WILL CONTINUE TO RECEIVE FULL IMPORT PARITY. GOA WILL REVIEW PRICING POLICY BEFORE JUNE 1981 TO DECIDE RATE AT WHICH FURTHER PROGRESSION TO FULL IMPORT PARITY FOR EXISTING FIELDS SHOULD TAKE PLACE.

4. FOR ADDITIONAL OIL WHICH DOES NOT QUALIFY FOR IMPORT PARITY, PRODUCERS WILL RECEIVE PRICE WHICH WAS CURRENT UP TO TIME OF INTRODUCTION OF NEW PRICING SCHEME; THAT IS, AUSTRALIAN DOLS 2.33 PER BARREL FOR BASS STRAIT OIL, AND AUSTRALIAN DOLS 2.88 PER BARREL FOR BARROW ISLAND OIL. ALL PRODUCTION FROM MOONIE AND ALTON FIELDS AND OTHER SMALL FIELDS WILL RECEIVE IMPORT PARITY AS OUTPUT FROM THESE FIELDS IS BELOW THE SIX MILLION BARREL PER YEAR PRODUCTION LEVEL.

5. PRICING ARRANGEMENTS FOR REMAINDER OF CALENDAR 1977
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WILL INCREASE PRICES RECEIVED NOW BY EXISTING PRODUCERS ABOUT AS FOLLOWS: BARROW ISLAND AUSTRALIAN DOLS 6.60 PER BARREL; BASS STRAIT AUSTRALIAN DOLS 3.20 PER BARREL; AND MOONIE AUSTRALIAN DOLS 10.00 PER BARREL. UNDER NEW PRICING SYSTEM, AVERAGE PRICE TO AUSTRALIAN REFINERIES OF OIL WILL INCREASE BY ESTIMATED 25 PERCENT. PRICE INCREASE FOR PETROLEUM PRODUCTS IS A MATTER TO BE CONSIDERED BY PRICE JUSTIFICATION TRIBUNAL, BUT THE RESULTANT PRICE INCREASE WILL PROBABLY BE ABOUT 2 1/2 CENTS PER LITER OF GASOLINE AT PUMP.

6. CRUDE OIL LEVY WILL BE INCREASED FROM AUSTRALIAN DOLS 2 TO AUSTRALIAN DOLS 3 PER BARREL IMMEDIATELY. LEVY WILL BE DEDUCTED FROM PRICE FOR IMPORT PARITY OIL AND ADDED TO PRICE FOR BELOW-IMPORT PARITY OIL. THAT IS, PRODUCER OF OIL THAT QUALIFIES FOR IMPORT PARITY WILL RECEIVE PARITY PRICE FROM REFINER. PRODUCER WILL PAY CRUDE OIL LEVY OUT OF HIS RECEIPTS. IN CASE OF OIL WHICH DOES NOT QUALIFY FOR IMPORT PARITY AND RECEIVES LOWER PRICE PER BARREL, REFINER PAYS CRUDE OIL LEVY IN ADDITION TO PRICE PAID TO PRODUCER.

7. PRESENT CRUDE OIL ABSORPTION POLICY, WHEREBY ALL CRUDE OIL PRODUCED IN AUSTRALIA IS REQUIRED TO BE PROCESSED IN AUSTRALIAN REFINERIES, WILL BE CONTINUED. INDIGENOUS CRUDE OIL, WITH ITS HIGH YIELD OF LIGHT FRACTIONS, IS IDEALLY SUITED TO LOCAL MARKET DEMAND.

8. EXISTING EMBARGO ON EXPORTS OF AUSTRALIAN CRUDE OIL REMAINS IN FORCE. WHAT EXPORT OF INDIGENOUS CRUDE OIL IS EXPORTED IS SIMPLY AN EXCHANGE OF AUSTRALIAN CRUDE FOR ANOTHER IMPORTED CRUDE OIL, WHICH IS OFTEN INFERIOR IN QUALITY TO AUSTRALIAN CRUDE. END UNCLASSIFIED

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9. BEGIN COMMENT: GOA CRUDE OIL POLICY IS DESIGNED TO INCREASE OIL EXPLORATION ACTIVITY, PROMOTE ENERGY CONSERVATION, AND ENCOURAGE THE SEARCH FOR FUEL ALTERNATIVES TO OIL. THESE OBJECTIVES CAN ONLY BE ACHIEVED IF PRICE OF CRUDE OIL IS INCREASED. CRUDE OIL POLICY IS ONLY PART OF A MORE COMPREHENSIVE NATIONAL ENERGY POLICY ANTHONY WILL PRESENT TO PARLIAMENT IN NEAR FUTURE.

10. NEW CRUDE OIL POLICY IS LIKELY TO ENCOURAGE EXPLORATORY ACTIVITIES, PARTICULARLY FOR SMALL COMPANIES, BUT THE INCREASE WILL NOT BE ENORMOUS. OIL EXPLORATION COMPANIES HAD SOUGHT RESTORATION OF A TAX DEDUCTION SYSTEM FOR RISK CAPITAL INVESTED IN EXPLORATION. THIS WAS CONSIDERED TO BE A MAJOR REQUIREMENT TO ENCOURAGE INVESTMENT IN THE EXPLORATION SECTOR.

11. NO MENTION WAS MADE IN BUDGET ADDRESS OR ANTHONY'S SPEECH ABOUT TAX INCENTIVES FOR DEVELOPERS OF PENDING NORTH WEST SHELF OFFSHORE NATURAL GAS PROJECT. AMONG TAX ISSUES APPARENTLY AWAITING RESOLUTION BEFORE THE NORTH WEST SHELF PROCEEDS, IS WHETHER OR NOT EXPLORATION EXPENDITURE AND ALLOWABLE CAPITAL (DEVELOPMENT) EXPENDITURE CAN BE DEDUCTED AGAINST INCOME FROM ANY SOURCE, EMPHASIS BEING PLACED ON INCOME FROM ANY SOURCE WITHIN A CORPORATE STRUCTURE WITH NUMEROUS SUBSIDIARIES INVOLVED IN MANY FACETS OF BUSINESS, MINING AND OTHERWISE. ALSTON

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